

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 USIA-15 PRS-01 SAJ-01

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P R 051030Z MAR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 3552

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. BANK OF ITALY INTERVENED HEAVILY IN
SUPPORT OF LIRE MARCH 4 BUT ONLY SLIGHTLY SMALLER
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SCALE THAN ON MARCH 1. WEIGHTED AVERAGE DEPRECIA-

TION OF COMMERCIAL LIRE WAS LOWEST SO FAR THIS YEAR. PRELIMINARY CUMULATIVE 1974 BALANCE OF PAYMENTS DEFICIT (ADJUSTED FOR COMPENSATORY BORROWING) WAS \$1167 MILLION THROUGH MID-FEBRUARY. END SUMMARY.

2. HEAD OF BANK OF ITALY FOREIGN EXCHANGE OPERATIONS ERCOLANI TOLD TREASATT MARCH 4 THAT BANK HAD HAD TO INTERVENE HEAVILY AGAIN IN SUPPORT OF LIRA, ALTHOUGH INTERVENTION WAS SOMEWHAT LOWER THAN ON MARCH 1; I.E., FOLLOWING UNEXPECTED ANNOUNCEMENT OF RESIGNATION OF TREASMIN LA MALFA. SUBSEQUENT RESIGNATION OF RUMOR GOVERNMENT AND MARCH 1 RUMOR (LATER DENIED) OF RESIGNATION OF BANK OF ITALY GOVERNOR CARLI HAVE DISTURBED EXCHANGE MARKET. TREASATT OVERHEARD BANK OF ITALY OFFICIAL MENTION INTERVENTION OF \$130 MILLION ON MARCH 1 AND \$100 MILLION ON MARCH 4 BUT CANNOT CONFIRM THESE FIGURES.

3. PRELIMINARY MONETARY MOVEMENTS FOR FEBRUARY 1-15 SHOW OVERALL DEFICIT OF \$105 MILLION. HOWEVER, NET OFFICIAL ASSETS FELL BY \$162 MILLION, WHILE NET FOREIGN POSITION OF COMMERCIAL BANKS IMPROVED BY \$57 MILLION. COMPENSATORY EUROMARKET BORROWING IN FIRST HALF OF FEBRUARY WAS \$300 MILLION, CONSISTING OF \$50 MILLION LOAN BY SIR AND \$250 MILLION BORROWING BY BANCA NAZIONALE DEL LAVORO. LATTER OPERATION HAS NOT BEEN MENTIONED IN PRESS NOR ELSEWHERE, AND WE SUSPECT IT MAY BE SHORT-TERM BORROWING PENDING RECEIPT OF OTHER LONGER-TERM COMPENSATORY LOANS NOW IN PROJECT. THUS, ADJUSTED DEFICIT FOR FIRST HALF FEBRUARY (EXCLUDING EUROMARKET BORROWING) WOULD HAVE BEEN \$405 MILLION.

4. CUMULATIVE DEFICIT FOR 1974 THROUGH MID-FEBRUARY WAS \$267 MILLION, FINANCED BY DECLINE IN NET OFFICIAL ASSETS OF \$468 MILLION AGAINST IMPROVEMENT IN NET FOREIGN POSITION OF COMMERCIAL BANKS OF \$201 MILLION. CUMULATIVE COMPENSATORY BORROWING DURING PERIOD WAS \$900 MILLION, INDICATING UNDERLYING DEFICIT OF \$1167 MILLION THROUGH MID-FEBRUARY.

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5. AVERAGE COMMERCIAL LIRE RATE MARCH 4 WAS 651.625 LIRE PER DOLLAR. AVERAGE FINANCIAL RATE WAS 716.125 LIRE PER DOLLAR. WEIGHTED AVERAGE DEVALUATION OF COMMERCIAL LIRE SINCE SECOND DOLLAR DEVALUATION WAS 19.73 PERCENT ON MARCH 4. THIS IS MOST DEPRECIATED RATE SO FAR IN 1974 AND WAS EXCEEDED ONLY TWICE LAST YEAR ON "BLACK THURSDAY", JUNE 14, AND ON JUNE 15. VOLPE

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